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TREASURY FOR M.MALLOY

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TAGS: [EFIN](#) [ECON](#) [PGOV](#) [EC](#)
SUBJECT: NEW MINISTER OF FINANCE: LOWERING DEBT'S POLITICAL
PROFILE

REF: QUITO 1758

Classified By: Classified by Ambassador Linda Jewell. Reason: 1.4 B and D.

¶1. (C) Summary. Fausto Ortiz, the new Minister of Finance, told the Ambassador that his top objective is to lower the rhetoric on debt. Ortiz plans to travel to Washington the first week of September for meetings with the Interamerican Development Bank, World Bank and IMF. End summary.

Lowering the Rhetoric on Debt

¶2. (C) The Ambassador met with new Minister of Economy and Finance Fausto Ortiz (reftel) on August 29. When asked about his biggest challenge, Ortiz replied: lowering the political profile of debt. He did not elaborate on how he would do that, but made clear that while debt remains a significant issue for the GOE, he does not want it to dominate his agenda.

¶3. (C) When the Ambassador asked about a debt commission that Correa established in July, Ortiz made two comments. First, he said that Correa did not/instruct the commission to identify "illegal" debt that Ecuador would not pay, but rather told the commission to investigate the government's debt and show the nation how it could best manage the debt. Second, he said that he (Ortiz) instructed his representative on the debt commission, former Minister of Economy Patino, that the commission has to give him several options. He does not want the commission to only recommend non-payment of debt.

Meeting the IFIs in Washington

¶4. (C) Ortiz said that he hopes to travel to Washington September 4-6 to meet with the Interamerican Development Bank (IDB), World Bank, and International Monetary Fund (IMF). However, he was waiting for Correa's final approval for the trip, and cautioned that if Correa had concerns with the draft budget that is to be presented to Congress on September 1 he might have to remain in Ecuador.

¶5. (C) Tacitly confirming that it is more politically acceptable in Ecuador to deal with the IDB than the other Washington-based lenders, Ortiz stressed that the official reason for his visit is to meet with the IDB. However, he said that he will hold informal meetings, over dinner on his

own time at the end of the day, with the World Bank and IMF.

¶16. (C) Continuing on the theme of his need to proceed carefully in establishing ties with the Washington-based lenders, Ortiz said that he had met with the IMF's representative in Ecuador, Jorge Guzman. He told Guzman that he'd continue to meet with Guzman, but only after the September 30 Constituent Assembly elections; in the interim, he could not take the risk of being seen as "the IMF's best friend" in Ecuador. (Note: Guzman confirmed to the Embassy that he had met with Ortiz, after being blackballed by the Ministry under Patino. Guzman believes that following his meeting with Ortiz he will be able to meet with other Ministry officials as well.)

¶17. (SBU) Ortiz told the Ambassador that if he does travel to Washington and his schedule permits, he would also be interested in meeting with U.S. Treasury officials.

Reexamining the Petroleum Funds

¶18. (C) When asked about a report that he is planning to close several of the petroleum reserve funds and bring that revenue onto the central government budget, Ortiz said that he plans to take a careful look at what makes the most sense. He said that he requested help from Economic Commission for Latin American and Caribbean (ECLAC) to determine whether Ecuador needs the petroleum reserve funds, and if so, what would be the best structure. He said that in his view, the FEISEH fund, which uses revenue from the former Occidental Petroleum fields to finance electricity and petroleum investment, probably makes sense. However, he said some of the other funds, which have extensive earmarking, are rigid

and difficult to operate. He noted that Correa has never called for the elimination of the funds, but has instead called for the elimination of earmarks. Ortiz added that 2008 budget assumes that the petroleum funds will continue to operate as currently structured.

Relations with Correa

¶19. (C) Ortiz said that he has known President Correa for 25 years. He implied that he has a sufficiently strong relationship that he could tell Correa "we're friends, but I disagree with your suggestion," but acknowledged that Correa has the authority to say, "we're friends, I'm the president, and you can go home now." He said that Correa is of the left, but more importantly that he is pragmatic. He said that it helps him, as Minister of Economy, that Correa is also an economist because Correa readily understands the issues, and once the President endorses a position proposed by Ortiz, that helps him manage issues with other members of the cabinet.

¶10. (C) Comment. Ortiz should be a very different Minister of Finance than his politically outspoken predecessor, Ricardo Patino. Patino focused heavily on making noise about Ecuador's external debt obligations but showed little administrative interest or ability. In contrast, Ortiz is seeking to down-play debt issues and focus on managing the budget. He also appears to be sufficiently confident of his standing within the government to reach out cautiously to the IDB, World Bank and IMF, which had little or no contact with the GOE under Patino. While Ortiz did not say so, we suspect that in reaching out to these institutions he recognizes that he may need to turn to them for financing down the road.

JEWELL